

Message Text

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9064

INFO AMEMBASSY BANGKOK PRIORITY

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USADB

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EO 11652:NA

TAGS: EGEN, ETRD, BEXP

SUBJECT: U.S. PROCUREMENT FROM ASIAN DEVELOPMENT BANK (ADB)

SUMMARY: USADB HAS FOLLOWED REGIONAL CABLE TRAFFIC ON U.S.
PROCUREMENT FROM ADB WITH GREAT INTEREST, FINDING PARTICU-
LARLY NOTEWORTHY COMMENTS BASED ON RESPONSES FROM U.S.

FIRMS. WHILE EMBASSIES WERE DISCUSSING MATTER WITH LOCAL BUSINESS REPS, USADB INTERVIEWED BANK STAFF, PARTICULARLY PROJECT OFFICERS, PROCUREMENT SPECIALISTS, PROJECT MANAGERS AND GENERAL COUNSEL. ALL OF THESE INDIVIDUALS HAVE DIRECT RESPONSIBILITY FOR REVIEWING TENDER DOCUMENTS AND FOR REVIEWING AND EVALUATING SUPPLIER AND CONTRACTOR BID PACKAGES. THEY ALSO MEET CONTRACTOR AND SUPPLIER REPS WHO VISIT THE BANK. WE BELIEVE THAT AT LEAST THREE MAJOR FACTORS OF U.S. PROCUREMENT FROM ADB FINANCED PROJECTS ARE CLOSELY RELATED TO SOLUTION TO THE PROBLEM OF INADEQUATE U.S. PROCUREMENT FROM THE ADB. THESE ARE: (1) EARLY KNOWLEDGE OF SUPPLY AND CONSTRUCTION WORKS SPECIFICATIONS, (2) COMPLIANCE WITH TENDER OFFERING AND (3) PERSONAL CONTACT BY U.S. SUPPLIER AND CONTRACT REPS AT ADB AND IN HOST COUNTRIES. END SUMMARY.

1. GAINING ACCESS TO EARLY INFORMATION OF SUPPLY AND CONSTRUCTION WORKS SPECIFICATIONS IS A COMPLEX ART FORM IN ASIA. INDEED, IT IS ACTION AT THIS STAGE THAT DETERMINES TO A SIGNIFICANT EXTENT WHETHER OR NOT SUCCESS IN SUPPLY AND CONTRACT AWARDS WILL BE ACHIEVED. WE BELIEVE THAT MOST MISSIONS AND AMCHAMS IN ASIA AND NAC AGENCIES ARE AWARE THAT EARLY WARNING OF IMPENDING ACTIVITIES IS READILY AVAILABLE IN THE ADB'S MONTHLY OPERATIONS INFORMATION REPORT (MOI). PROJECTS LISTED IN THE MOI ARE THOSE THE BANK INTENDS TO APPRAISE. THESE ARE PROJECTS LIMITED OFFICIAL USE

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THAT ARE IN KEEPING WITH THE BANK'S DEVELOPMENT STRATEGY FOR A COUNTRY AND FOR WHICH IT IS PREDISPOSED TO FINANCING FOREX COSTS SUBJECT, OF COURSE, TO THE PROJECT'S TECHNICAL FEASIBILITY, FINANCIAL SOUNDNESS AND ECONOMIC VIABILITY. WHILE NEW PROJECTS LISTED IN THE MOI CONTAIN LITTLE MORE THAN TITLE, THE NAME OF THE EXECUTING AGENCY, A BRIEF DESCRIPTION OF THE PROJECT AND STATUS OF THE INVESTIGATIVE PROCESS, IT IS NEVERTHELESS SUFFICIENT INFORMATION TO ENABLE SUPPLIERS AND CONTRACTORS TO DETERMINE THEIR INTEREST AND TO IDENTIFY THE EXECUTING AGENCY IN THE HOST COUNTRY. SUBSEQUENT MONTHLY ISSUES OF THE MOI PROVIDE UP-DATES OF THE STATUS OF INVESTIGATION OR APPRAISAL, THE PROPOSED LOAN/TA AMOUNT AND ADDITIONAL DETAILS ON PROJECT DESCRIPTION AS MAY BE APPROPRIATE.

2. THIS EARLY WARNING SERVES TO REMIND COMPANY REPS TO RENEW OLD CONTACTS OR TO INITIATE NEW ONES IN EXECUTING AGENCIES. WE UNDERSTAND THE MORE AGGRESSIVE REPS TAKE ADVANTAGE OF THIS EARLY WARNING TO PROVIDE BROCHURES AND OTHER INFORMATION TO EXECUTING AGENCIES AT THIS POINT IN THE LIFE CYCLE OF PROJECT DEVELOPMENT IN AN ATTEMPT TO DRAW ATTENTION TO THEIR PRODUCTS DURING THE PERIOD WHEN

EXECUTING AGENCIES ARE DEVELOPING SPECIFICATIONS FOR
COMMODITIES AND CIVIL WORKS. THE PERIOD FROM INITIAL
PUBLICATION IN THE MOI TO PROJECT APPROVAL USUALLY RUNS
FROM 4 TO 8 MONTHS BUT IN SOME CASES EVEN LONGER. TOWARD
THE END OF THIS PERIOD, ABOUT THREE WEEKS PRIOR TO ITS
CONSIDERATION BY THE BOARD OF DIRECTORS, THE BANK ISSUES
THE PROJECT APPRAISAL REPORT. IMMEDIATELY ON RECEIPT OF
THE REPORT USADB PREPARES A REPORTING CABLE TO NAC
AGENCIES WHICH INCLUDES A SPECIAL SECTION ON PROCUREMENT.
THE CABLE IS REPEATED TO THE COUNTRY CONCERNED FOR
COMMENT.

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9065

INFO AMEMBASSY BANGKOK PRIORITY

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3. MEANWHILE, SOME TIME AFTER THE MOI IS ISSUED, EXECUTING AGENCIES WILL HAVE BEGUN TO FORMULATE PROJECT DETAILS AND SPECIFICATIONS FOR COMMODITIES AND CIVIL WORKS. IN CERTAIN CASES HOST COUNTRY AGENCIES MAY ASK THE BANK FOR CONSULTANT SERVICES TO ASSIST IN THIS TASK. WHILE SPECIFICATIONS FOR A NUMBER OF PROJECTS ARE COMPLETED PRIOR TO PROJECT APPROVAL, THE MORE COMPLEX ACTIVITIES WHICH NEED SPECIAL CONSULTING SERVICES MAY REQUIRE A NUMBER OF MONTHS TO COMPLETE FOLLOWING BOARD APPROVAL. IT IS CLEAR, THEREFORE, THAT SUPPLIER REPS AND CONTRACTORS NEED TO MAKE CONTACT EARLY WITH EXECUTING AGENCIES AND TO FOLLOW UP FREQUENTLY TO DETERMINE THE STATUS OF SPECIFICATIONS AND THE TENDERING PROCESS. AS AN INDICATION OF INTEREST BY SOME SUPPLIERS, BANK STAFF REPORT THEY OCCASIONALLY "RUN INTO" JAPANESE SUPPLIER AND CONTRACTOR REPS IN EXECUTING AGENCIES, WELL BEFORE PROJECT IS APPROVED BY BOARD OF DIRECTORS AND WHILE BANK TEAMS ARE ON PROJECT APPRAISAL MISSIONS.

4. AFTER FORMULATION OF SPECIFICATIONS, EITHER PRIOR TO OR FOLLOWING PROJECT APPROVAL, EXECUTING AGENCIES SUBMIT SPECIFICATIONS TO ADB FOR REVIEW AND APPROVAL PREPARATORY TO TENDERING. BANK STAFF INFORMALLY ACCEPT THE FACT THAT SOME LEAKAGE MAY OCCUR IN THE BANK'S REVIEW PROCESS AS WELL AS IN THE EXECUTING AGENCY AT THE SAME TIME THAT THE LATTER IS DEVELOPING THE SPECIFICATIONS. THIS IS DESPITE THE FACT THAT BANK GUIDELINES CONSIDER TENDER OFFERINGS AS PRIVILEGED INFORMATION THAT ONLY THE EXECUTING AGENCY IS AUTHORIZED TO RELEASE AT THE TIME OF TENDER. FOLLOWING BANK APPROVAL OF TENDER DOCUMENTS WHICH NORMALLY TAKES 7 - 10 DAYS, THE EXECUTING AGENCY ADVERTISES ITS TENDER OFFERING IN ENGLISH LANGUAGE NEWSPAPERS IN THE REGION AND IN DEVELOPED MEMBER COUNTRIES AND SPECIFIES

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THE FEE FOR TENDER DOCUMENTS AND PERIOD FOR TENDERING. WHILE ADB REQUIRES AT LEAST 60 DAYS FOR BIDDING, LONGER PERIODS ARE PROVIDED FOR COMPLEX ACTIVITIES. THEREFORE, IT IS IMPERATIVE THAT FIRMS WHO WISH TO BID ON A

TENDER OFFERING DO WHAT IS NECESSARY TO LEARN ABOUT THE PROJECT, THE COMMODITY SPECIFICATIONS, DELIVERY PERIODS, ETC., AS EARLY AS POSSIBLE AFTER THE MOI EARLY ALERT SIGNAL. WE NOTE THAT SEVERAL U.S. FIRMS HAVE COMPLAINED ABOUT THE SHORT LEAD TIME FOR TENDERING. WE HAVE DISCUSSED THIS WITH BANK STAFF WHO BELIEVE THAT DEVELOPING MEMBER COUNTRIES ARE RELUCTANT TO EXTEND THE TIME PERIOD AS IT WOULD FURTHER DELAY THE PROJECT. WE ALSO NOTE THAT EXTENDING THE PERIOD WILL TEND TO CREATE CERTAIN DIFFICULTIES WITH SOME SUPPLIERS WHO BELIEVE THEY WILL BE UNABLE TO HOLD THEIR BID PRICES FOR LONGER PERIODS. AS SEVERAL U.S. FIRMS COMPLAINED ABOUT THE SHORT BID PERIOD, IT IS IMPORTANT THAT EARLY CONTACTS BE MADE WITH EXECUTING AGENCIES TO LEARN ABOUT PROJECT DETAILS WELL BEFORE THE TENDER OFFER.

5. FOR OBVIOUS REASONS THE EXECUTING AGENCY AND THE BANK MUST ADHERE TO THE PROVISIONS OF A TENDER OFFERING IN REVIEWING BID PACKAGES. IN THIS CONNECTION WE HAVE BEEN INFORMED THAT U.S. FIRMS HAVE A TENDENCY TO MODIFY TENDER PROVISIONS IN AN EFFORT TO PROVIDE JUSTIFICATION FOR THEIR SPECIALTY PRODUCTS OR FOR COMPONENTS THAT EXCEED THE SPECIFICATIONS CALLED FOR IN THE TENDER. THIS OFTEN MEANS THAT THE U.S. BID WILL BE HIGHER COST THAN A COMPARABLE ONE WITH LOWER SPECIFICATIONS. UNFORTUNATELY NO CREDIT IS GIVEN FOR THE ENHANCED QUALITY OF THE HIGHER SPECIFICATIONS.

6. WE HAVE NOTED OCCASIONAL COMMENTS THAT SPECIFICATIONS PREPARED BY CONSULTANTS MAY TEND TO FAVOR A PARTICULAR COUNTRY SUCH AS JAPAN OR INDIA. IN FOLLOW UP TO SEVERAL INQUIRIES DURING THE PAST YEAR THE USED'S OFFICE HAS LIMITED OFFICIAL USE

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FOUND BANK STAFF EXTREMELY SENSITIVE TO THIS ISSUE. STAFF HAS INDICATED TO US ON A NUMBER OF OCCASIONS THEY

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FM AMEMBASSY MANILA

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INFO AMEMBASSY BANGKOK PRIORITY

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WOULD NOT HESITATE TO MODIFY SPECIFICATIONS IF THESE
APPEAR TO BE WARRANTED. IN SEVERAL CASES OF WHICH WE ARE
AWARE, MODIFICATIONS IN SPECIFICATIONS WERE INTRODUCED BY
BANK STAFF AFTER U.S. FIRMS FILED COMPLAINTS. APPARENTLY
BANK STAFF REQUIRE EXECUTING AGENCIES TO CHANGE SPECIFI-
CATIONS WHEN BANK NOTES APPARENT BIAS RESULTING FROM ITS
REVIEW OF EXECUTING AGENCY RECOMMENDATIONS. DESPITE THE
ABOVE, WE WOULD BE NAIVE NOT TO REALIZE THAT A CERTAIN
AMOUNT OF NATIONAL BIAS PROBABLY CONTINUES TO EXIST DUE
TO THE NATIONALITY MAKEUP OF THE BANK. IT IS PARTLY FOR
THIS REASON THAT WE STRONGLY SUPPORT THE ASSIGNMENT OF
COMPETENT AMERICAN PERSONNEL TO THE BANK STAFF.

7. ONE SINGLE RECOMMENDATION THAT WE HEAR RECURRINGLY IS THAT U.S. SUPPLIER EWD CONTRACTORS MUST BE AVAILABLE AT THE DOOR STEP OF BOTH THE EXECUTING AGENCY AND ADB. PERSONAL CONTACT HAS LONG BEEN RECOGNIZED AS A CRUCIAL FACTOR IN DOING BUSINESS, PARTICULARLY IN ASIA. BANK STAFF READILY ADMITTED THAT PERSONS OUT OF SIGHT ARE SOMETIMES FORGOTTEN AND THEY EMPHASIZED THE IMPORTANCE OF HUSTLE, A CHARACTERISTIC MOST BANK STAFF ASSOCIATE WITH U.S. BUSINESS PRACTICES, BUT WHICH INCREASINGLY IS BECOMING THE JAPANESE REP'S TRADE MARK. WHEN QUERIED ABOUT THIS, A JAPANESE PROJECT OFFICER, WHO WAS TRAINED IN A U.S. SCHOOL OF BUSINESS, RESPONDED THAT THE JAPANESE HAVE LEARNED THEIR LESSONS WELL IN U.S. GRADUATE SCHOOLS OF BUSINESS. BANK STAFF REPORT THAT MANILA BASED REPS NOT ONLY MAKE PERSONAL CALLS TO STAFF BUT ALSO MAKE LIBERAL USE OF THE TELEPHONE TO FOLLOW UP ON EVERYTHING FROM NEW PROJECT IDEAS, PIPELINE PROJECTS AND CRITIQUES ON THEIR UNSUCCESSFUL BIDS. ONE STAFFER SAID HE CAN COUNT ON SUPPLIER REPS FROM JAPANESE POWER TURBINE MANUFACTURERS TO CALL ON HIM ONCE A QUARTER. WHEN ASKED IF THEY SAW LIMITED OFFICIAL USE

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U.S. SUPPLIER REPS THE OFFICERS COULD NOT RECALL WHEN THEY HAD LAST SEEN ONE. ON THE OTHER HAND, MOST OF THE PROJECT OFFICERS NOTED THAT THE CATERPILLAR MANUFACTURING CO. IS AN EXEMPLARY U.S. FIRM THAT IS BOTH ALERT AND RESPONSIVE. CATERPILLAR REPS VISIT THE USED'S OFFICE PERIODICALLY AND APPEAR TO HAVE A GOOD GRASP OF DEVELOPMENT ACTIVITIES IN THE REGION. IN A RECENT VISIT TO OUR OFFICE THIS FIRM'S ONLY COMPLAINT WAS THAT ADB'S SUPPLY CONTRACTS ARE AWARDED ON THE BASIS OF ACQUISITION COST RATHER THAN ON TOTAL COST. WHERE OPERATING EQUIPMENT IS USED ON PROJECTS THAT ARE LATER TURNED OVER TO LINE AGENCIES IN HOST GOVERNMENTS, WE BELIEVE THAT TOTAL COST CONCEPT HAS MERIT BECAUSE OF THE LONG TERM IMPACT ON LINE AGENCY BUDGETS FOR OPERATING THE EQUIPMENT LONG AFTER THE PROJECT IS COMPLETED.

8. WHILE NOT A MAJOR FACTOR IN U.S. PROCUREMENT, WE BELIEVE ON THE BASIS OF OUR DISCUSSIONS HERE THAT U.S. EMPLOYEES OF THE BANK AT THE TECHNICAL PROJECT OFFICER LEVEL DO HAVE A ROLE TO PLAY IN THIS EFFORT. OBVIOUSLY IT IS DIFFICULT TO PROVIDE CONCLUSIVE EVIDENCE IN THIS REGARD, HOWEVER, IT HAS BEEN POINTED OUT TO US THAT PRIOR TO THE RECENT DEPARTURE OF A SENIOR AMERICAN (TO THE IBRD) IN THE POWER DIVISION, A RELATIVELY LARGER NUMBER OF U.S. CONTRACTORS CALLED ON HIM. NOW WITH AN INDIAN NATIONAL IN THIS POSITION, AN EQUALLY LARGER NUMBER OF INDIAN FIRMS CALL ON THE NEW OFFICER WHILE U.S. FIRMS ARE NOW SELDOM SEEN. IN ADDITION, AMERICANS

AS EMPLOYEES OF THE BANK WOULD BE ASSIGNED TO PROCUREMENT COMMITTEES, REVIEW PANELS AND APPRAISAL MISSIONS. THEIR PRESENCE WOULD HAVE A POSITIVE EFFECT BY ALERTING ALL PERSONS CONCERNED, BY INFERENCE AT LEAST, THAT THE BANK'S PROCESSES WERE BEING OBSERVED.

9. USADB COMMENTS: WHILE WE HAVE MADE A NUMBER OF OBSERVATIONS ABOUT CONSTRAINTS ON U.S. PROCUREMENT FROM LIMITED OFFICIAL USE

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THE ADB, WE ARE FULLY COGNIZANT OF THE FACT THAT COSTS OF PRODUCTION, FREIGHT AND INSURANCE DIFFERENCES AMONG

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COUNTRIES ARE MAJOR FACTORS IN A COMPETITIVE ENVIRONMENT. HOWEVER, WE ARE IMPRESSED THAT INCREASED U.S. PROCUREMENT IN ASIA SHOULD NOT BE DISCOUNTED BECAUSE OF THIS. U.S. QUALITY AND U.S. DESIGN ARE STILL SAVORED IN MANY AREAS OF THE WORLD, INCLUDING ASIA. THERE ARE SOME IMPORTANT ACTIONS, HOWEVER, THAT CAN BE TAKEN BY THE U.S. PRIVATE SECTOR AS WELL AS BY THE GOVERNMENT TO ENHANCE U.S. PROCUREMENT. SOME OF THESE ACTIONS MAY BE DIFFICULT TO IMPLEMENT, BUT THIS SHOULD NOT DIMINISH THEIR IMPORTANCE AS FACTORS IN INCREASING U.S. PROCUREMENT FROM ADB FINANCED PROJECTS. WE BELIEVE, FOR EXAMPLE, THAT:

(1) THE LACK OF U.S. SUPPLIER REPRESENTATION AT THE DOOR STEP OF THE BANK AND EXECUTING AGENCIES IS A MAJOR CONSTRAINT. THERE APPEARS TO BE NO SUITABLE SUBSTITUTE FOR AN AMERICAN WHO IS KNOWLEDGEABLE ABOUT HIS PRODUCT, ITS COST AND ITS RELATIONSHIP TO ASIAN CONDITIONS IN PERSUADING HOST COUNTRY EXECUTING AGENCIES OF THE MERITS OF THE PRODUCT. MAINTAINING AMERICANS ABROAD, HOWEVER, WILL REQUIRE DRASTIC MODIFICATIONS IN CURRENT THINKING ABOUT U.S. TAX INCENTIVES TO U.S. FIRMS WORKING OVERSEAS.

(2) A SECOND IMPORTANT ELEMENT IS EARLY KNOWLEDGE ABOUT PROJECT FORMULATION. THE MOI IS THE TRIGGER MECHANISM FOR ALERTING SUPPLIERS ABOUT ADB PIPELINE PROJECTS. SUPPLIER REPS SHOULD REACT TO THIS REPORT BY MAKING CONTACTS IN EXECUTING AGENCIES AND IN THE BANK. THE RECENT RECOMMENDATION BY ADB MANAGEMENT TO ITS BOARD OF DIRECTORS THAT THE BANK PARTICIPATE IN THE USE OF THE BUSINESS EDITION OF THE UN'S DEVELOPMENT FORUM FOR WORLD-WIDE DISSEMINATION OF PRE-TENDER INFORMATION FOR PROCUREMENT PURPOSES IS AN EXCELLENT STEP IN THE RIGHT DIRECTION. THE BOARD WILL CONSIDER THIS MATTER AUGUST 1. ALSO, BANK MANAGEMENT IS PROPOSING TO REMOVE ITS RESTRICTIONS ON THE DISTRIBUTION OF THE MOI AND TO OFFER IT TO THE PUBLIC ON

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A SUBSCRIPTION BASIS. (3) A THIRD ELEMENT IS BID PACKAGING. THERE IS A FEELING IN THE BANK THAT JAPANESE SUPPLIERS ARE METICULOUS IN PREPARING THEIR BIDS WHILE U.S. FIRMS HAVE A TENDENCY TO PROVIDE ALTERNATIVES TO TENDER OFFERS. THESE ALTERNATIVES ARE SOMETIMES REASONABLE. HOWEVER, EXECUTING AGENCIES AND THE BANK HESITATE TO ALTER THE OFFERING BECAUSE OF THE COST OF DELAYING A PROJECT. THERE IS NO DOUBT THAT PRICING IS A MAJOR DETERMINANT IN CONTRACT AWARD PROVIDING THAT ALL MINIMUM SPECS HAVE BEEN SATISFIED. HOWEVER, THE LACK OF FULL KNOWLEDGE ABOUT A PROJECT AND ABOUT COUNTRY CONDITIONS PROBABLY FORCES SUPPLIERS TO PAD THEIR BIDS AS HEDGE AGAINST UNFORESEEN CIRCUMSTANCES.

10. FINALLY USADB INTENDS TO SEND ALERT CABLES ON NEW PROJECTS AS SOON AS THEY ARE IDENTIFIED IN THE MOI. WE PLAN TO CABLE THE MISSIONS CONCERNED AS WELL AS MAJOR CENTERS OF POSSIBLE U.S. SUPPLIER AND CONTRACTOR INTEREST. WE SUSPECT, HOWEVER, THAT MISSIONS WILL PROBABLY HAVE TO BEAR THE BRUNT OF FOLLOW-UP IN THE ABSENCE OF ADEQUATE REPRESENTATION BY U.S. SUPPLIER AND CONTRACTOR REPS.
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Review Release Date: n/a
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Review Withdrawn Fields: n/a
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Status: NATIVE
Subject: U.S. PROCUREMENT FROM ASIAN DEVELOPMENT BANK (ADB) SUMMARY: USADB HAS FOLLOWED REGIONAL CABLE TRAFFIC ON U.S. PROCUREMENT FROM ADB WITH GREAT INTEREST, FINDING
TAGS: EGEN, ETRD, BEXP, US
To: STATE
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/47bd676d-c288-dd11-92da-001cc4696bcc
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